

OPENING STATEMENT OF CHAIRMAN PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND
GOVERNMENT SPONSORED ENTERPRISES
HEARING ON THE PRESENT CONDITION AND FUTURE STATUS
OF FANNIE MAE AND FREDDIE MAC
JUNE 3, 2009

We meet today to examine the present condition and future status of Fannie Mae and Freddie Mac, which together have lost more than \$150 billion since the third quarter of 2007. This hearing is not only the first hearing in the 111th Congress on the two government-sponsored enterprises, but it is also the first in a series that the Capital Markets Subcommittee will convene to review these matters.

Last summer, Congress completed work on an eight-year project by enacting the Federal Housing Finance Reform Act. Shortly thereafter, the new Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship. Since then, the Treasury Department has purchased \$85.9 billion in senior preferred stock at the two enterprises. This investment could ultimately grow to as much as \$200 billion per institution under current agreements.

In recent months, the Treasury Department has supported Fannie Mae and Freddie Mac in other ways, as well, by purchasing \$5 billion of their mortgage-backed securities in 2008 and requesting \$249 billion more for 2009. In addition, the Federal Reserve now has a sizable interest in the success of the two companies, holding more than \$71 billion of their bonds and \$365 billion of their mortgage-backed securities.

In total, these growing taxpayer commitments are quite sizable, if not staggering. They have also led many to conclude that the implicit government guarantee toward the enterprises has now become an explicit one. Our hearing today will therefore examine the government's financial support for Fannie Mae and Freddie Mac and explore options for the future of their relationship with the government.

From my perspective, the emergency actions taken to date by the Federal Housing Finance Agency, the Treasury Department, and the Federal Reserve were needed to ensure the continued functioning of our nation's housing finance system during this period of considerable economic turmoil. With all of their problems and imperfections, Fannie Mae and Freddie Mac have ensured that millions of Americans can continue to purchase and own their homes.

While the existence at this time of Fannie Mae and Freddie Mac is essential for our nation's economic recovery, this is also an appropriate moment to begin to consider how we might modify their mission, operations, and ventures going forward. As former Treasury Secretary Henry Paulson has observed, we need to use this period while Fannie Mae and Freddie Mac stabilize to decide what role they should play in the markets. I must, however, caution everyone that this debate will be a long-distance relay between Congresses, not a 100-meter sprint within the 111th Congress.

The debate over what roles and functions Fannie Mae and Freddie Mac should perform has, of course, raged for many years. Many good reform ideas have started to come to light in recent months, and we should study them closely. Some of our choices include reconstituting the enterprises as they were before the conservatorship decision; splitting them into smaller

operating companies like we did with AT&T; regulating the prices they charge like a utility; creating cooperative, non-profit ventures; or revolving them back into the government.

Many have also called for privatizing Fannie Mae and Freddie Mac, and there is some precedent for such actions. In the 1990s, for example, we enacted a law that allowed Sallie Mae to graduate from the school of government-sponsored enterprises. While we could do the same here, we ought to move cautiously. We created Fannie Mae and Freddie Mac because of a market failure, and we ought to ensure that any new system of housing finance continues to provide a stable source of funding and long-term credit to help people to purchase homes.

In short, we must keep our minds open to all reform proposals and refrain from drawing lines in the sand about what each of us will, or will not, support until we have had the chance to consider the pros and cons of many different options. That said, I will use one key factor in my examination of these choices: Namely, I want to ensure that community banks and retail credit unions continue to have access to a neutral source of affordable funding to help them compete against large institutions. These mortgage providers are important participants in our markets, and we must ensure that they continue to have an opportunity to help hard-working families to achieve the American dream of homeownership.

In sum, this hearing is timely. Congress has a constitutional responsibility to conduct effective oversight of the work of the Federal Housing Finance Agency to make sure that it is operating as we intended. We also have an obligation to ensure that the executive branch is effectively allocating federal tax dollars and helping as many people as possible to remain in their homes. Finally, Congress needs to begin to think about how it will structure the government's relationship with Fannie Mae and Freddie Mac once we emerge from this financial crisis. I look forward to a vibrant debate on these important issues.
